

*BEST COPY*  
*Available*

# **The Effect on USSR Trade Balances in 1957 of Recent Soviet Agreements with the European Satellites**

Revision of Soviet agreements and other trade arrangements with the Satellites in 1957, as is estimated, will cost the Soviets approximately \$900 million in 1957. This total cost represents an estimated decrease in 1957 of Soviet imports from Eastern Europe of \$560 million together with an increase of Soviet exports of \$350 million. The total Soviet commodity imports and exports are each running at an annual rate of slightly more than \$3 billion, this implies that total imports will decline by about 10 percent, total exports will rise by about 11 percent.

Of this one half (\$450 million) of the total consists of reduced competition cost payments upon East Germany and the Polish and Rumanian debt cancellations. In general, since 1945, the USSR has accelerated a policy of releasing the Satellites from interest and commodity payments whose collection was impractical. Local Communists, however, can use these concessions to indicate the possibilities for success in improving economic conditions for themselves.

To calculate the cost of trade concessions in 1957, the following must be determined: commitments which will result in decreased imports, and Soviet commitments which will result in increased exports. In considering the debt cancellation agreements, the only increase is the commitment to decrease imports on the part of the GDR. The Warsaw agreement regarding the GDR share of occupation costs similarly represents a commitment to decrease imports. In considering the credit agreements, the cost is for increased Soviet exports now being received. By themselves, both the decreased imports and increased exports will tend to produce a net export surplus in the USSR's commodity trade with the European Satellites.

The western impact of the 1956 Soviet commitments will be seen in 1957, when the agreements provide for the transfer of Soviet commitments to a schedule of payments, which represent shortly thereafter. In 1957, for example, the export of goods resulting from the 1956 commitments will only be about 1/4 that of 1956, or 1,000 million in 1958 as compared with 4,000 million in 1957. At 1957 levels, additional Soviet commitments may shift some of the relative burden into 1958.

#### Increased Soviet Export Commitments

##### The Polish Case

In November, the outstanding Polish debt to the USSR amounting to \$2.1 billion was cancelled. The sum was the equivalent of the value to which Poland had committed in selling 92,000,000 metric tons of coal to the USSR at a discount of 10% in the period 1946-53.

The December, 1956, agreement re-printed the most significant of 1946-53 by reducing the price of coal to the original extremely low price, thus wiping out the debt. The commitment to the USSR, since the low coal prices had caused a large loss to the USSR, after a protocol had been signed to that effect, only now signed before the debt was affected by the price adjustment.

In his report to the State on November 30, Premier Gromyko stated that:

It was observed that repayment of more than 2 billion rubles in the years 1957-60, also pointed out, however, that even with the debt cancellation, the balance of payments for 1957-60 would be adverse, that the goals of the Five Year Plan were not being met. Furthermore, Gromyko had termed the debt "not sound or proper." It was also questionable whether the debt would or could have actually been repaid.

For Doc 131.

SECRET

Nevertheless, for the purpose of calculation of the business report of 1955

the amount, approximately one ninth of the total will be entered as the portion

to be repaid to the USSR (\$60,000,000), or one year's payment on the 0.1 billion

of the debt.

#### The Russian Case

Romania had been in debt to the USSR for its purchase in 1954 of the

and in which Soviet-Romanian companies (Sovroms) at a reported price of 4.3 billion

it. // The original debt was to have been repaid over a ten-year period; however,

because of the payment that would have been expected to 100 million lei or (\$2,000,000)

it amount is included in the currency accounting. (The recent cancellation was in

amount of 4.3 billion lei thus implying that the 1955 installment of the debt

amount.)

It should be noted, however, there are reasons for doubting that there was

real basis for the entire debt. The sale in 1954 is reported to have been made

on the basis of the Romanian currency unit, thus possibly overvaluing the USSR with (b) per

cent more in value than it was entitled to receive. //

It had been the practice for the USSR to take its share of the profits in

the form of Romanian exports; meanwhile, Soviet reimbursement in these

cases was effected through reduced imports or ships and equipment. From

the point of Romania, in his radio broadcast discussing the agreement, stated that the

Soviet reimbursement in the plants would still have to be paid over. Thus, the USSR

insisting on getting the full value of its share in the profits covering the full

past years of operations of the Sovroms.

Stalin also announced that the USSR had postponed for a year the...

credits granted to Russia in the period 1945-46. (The provision to...

...; however, hence this cannot be included.

#### 2. The East German Agreement

The July agreement is reported to have been available to the GDR...

... 1.5 billion DM in the period 1957-60. 1/ of this, 1.2 billion DM...

... 90 percent reduction in the German share of Soviet occupation costs...

... of foreign exchange, Soviet production in building, in...

... prices for wheat would rise. The Soviet commitment to decrease...

... at 1930 million a year. This commitment, however, may contain a hidden...

... (u.g., defense production for the USSR) and was previously limited in...

#### 3. The Hungarian Case.

ILLEGIB

As is well known, the uprising in Hungary around the economic...

... to a halt. The effect upon exports to the USSR in 1957 cannot be...

... However, the Hungarians have said that since the beginning of the up...

... "the damage suffered by commerce" was an estimated 600 million forints. (30 million)...

... in view of the magnitude of the damage, a meaningful estimate of the effect on...

... Soviet exports is not possible at this time.

SECRET

Summary of Soviet Export CommitmentsSee caption

The following table summarizes the 1956 credit agreements made by the

with the following details. B/

Soviet Export Commitments to the USSR, 1956

	Amount	To be repaid on	To be repaid
1956-57	\$92.5 million	1956-59	10 years @ 2%
1957-58	Estimated at \$110 million	1957-60	10 years
1958-59	\$4 million (oil and coke)	1957	Hungarian goods in 1957
	\$15 million (foreign exchange)	1957	1958-65 @ 2%
	\$15 million (raw materials)	1957	"
	\$50 million (cash currency)	1957	In terms known
1959-60	\$80 million (goods & gold)	1956	1957-60 @ 2% (new installment)
	\$175 million (goods)	1956-59	1958-65
	\$100 million (grain)	1957	1961-62
	\$31 million (sugar)	1957	1959-61
	\$14.3 million (cocoa)	1957	1959-61
	\$67.5 million (industrial credits)	1957 (1)	10 years from commencement

## 2. Hungarian Export Commitments

The factor in the Hungarian situation not yet mentioned is the export balance to other destinations which Hungary will not be able to meet and which may or may not be met partly by the USSR. Insofar as the USSR has agreed to meet Hungarian export commitments, however, either through its own exports or through the loan of exportable commodities, the effect of this on USSR exports is very probably already covered in the above figures. If the USSR receives no immediate gold and free foreign exchange, then they are a gift or a loss, for which the USSR would certainly take credit in a public announcement. If the USSR not only meets Hungarian commitments but also accepts payment for them through increased imports from countries hostile to the Soviet Union, the balance of the Soviet Union would not be affected.

## Total Net Effect on USSR-Balancing Trade

In the following table, all the foregoing have been put into terms of one year's net to the Soviet Union.

### Estimated 1957 Net to USSR in Terms of Net Trade Changes

#### Payments to Soviet Export Commitments

	Million \$US
Polish debt cancellation	40
Romanian debt cancellation	80
USSR compensation credit adjustment	350
Foreign Exchange Transfer (estimated)	60
	<hr/>
	530

#### Payments to Soviet Commitments

Refugee loan	25
Soviet German agreement	110
Hungarian loan	25
Polish loan	120
Romanian loan (estimated)	125
	<hr/>
Total	405

It is assumed that the present Soviet signature of an agreement extending to 1960 covering a credit in the amount of \$15 million in gold and free commodities.

of the total figure of about \$900 million, debt cancellations and the lower  
 based upon the East German account for \$500 million. The cancellations of  
 Soviet Russian debts represent an extension of earlier Soviet recognition of  
 claims to satellite production could reach unrealistic and exaggerated heights.  
 In case of East Germany, the USSR cut in half the GDR share in the costs of  
 obtaining Russian loans in Germany. In agreeing to cut the figure in half the  
 USSR gives the appearance of being generous and also retains a sizeable trump card  
 in future negotiations.

The bulk of the remaining figure of about to \$400 million is loans. It is of  
 special interest that 1957 food and grain commitments account for \$135.3 million,  
 and 50 percent of Soviet credits for goods scheduled for 1957 delivery. These loans  
 are repayable and consequently, contribute only temporarily to a Soviet export surplus.



SECRET

CENTRAL INTELLIGENCE AGENCY  
Office of the Chief, Economic Research  
Office of Research and Reports

## Project Action Memorandum

Project No. 42 1696  
Date: 28 Dec 56

TITLE: Soviet Financial Losses Resulting from New Agreements with the European Satellites

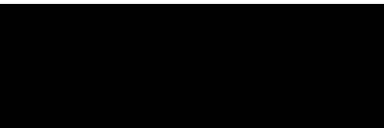
REQUESTER: Self

STATEMENT OF THE PROBLEM AND TERMS OF REFERENCE:

Problem: To estimate the approximate magnitude of the additional annual financial expense to the USSR caused by the recent necessity to make fair deals with the EuSats.

Terms of Reference: The approach to this problem will be made by a comparison of the recent price changes in major USSR imports from the EuSats and to estimate the magnitude of debt cancellation. This project is expected to result in a study suitable for publication in CSI Weekly or as a CSN.

RESPONSIBILITY:

	<u>Man hours</u>	<u>Due Dates</u>	<u>Concurrence (Initials)</u>
<u>Action Division:</u>	D/S	7 Jan 57	<u>RWB</u>
<u>Branch:</u>	S/EF 50		
<u>Consulting Branches:</u>	M/S		
	M/EF		
	M/FM		
	M/P		
<u>Staffs:</u>	CS		<u>12/56</u>
	CS/BR		
<u>Principal Analyst:</u>			
<u>Project Monitor:</u>			
	25X1A		

This project will not delay completion of currently scheduled projects. The classification of this project will be no higher than SECRET.

APPROVED: 2/6 Ch/E

SECRET